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EPA Finds Rapid Employment Gains In Current Expansion

Japanese economic growth has often been associated with increasing exports. Recently it has been different: domestic demand is clearly leading the way. The Economic Planning Agency says that employment, especially in nonmanufacturing, has grown more rapidly as a result.

EPA compared the current recovery and expansion, which it dates from November 1986, with the previous one running from February 1983 to March 1984. In many respects the expansions are similar: industrial output increased by 10.7 percent during the earlier period and 12 percent during the second. The gross national product grew at a healthy rate during both periods, although monthly data that would permit direct comparisons are not available.

The biggest single difference is trade. In the earlier expansion, the yen was practically stable (rising just 4.8 percent) and the current account surplus was growing. In the more recent period, the yen appreciated 26.7 percent and the monthly current account surplus rose and then fell, ending up generally lower.

EPA looked at the pattern of employment expansion during the two periods. The current one is clearly more favorable, even in the hard-pressed manufacturing sector (see Table). While the growth in the labor force (those available for work) was about the same in both periods, employment is growing far faster in the current rebound.

Comparing Two Expansions

(growth in number of people)

	February 1983-March 1984	November 1986-December 1987
Increase in Labor Force	220,000	280,000
Increase in Total Employment*	740,000	1,160,000
Manufacturing	350,000	370,000
Wholesale, Retail, and Eating and Drinking Establishments	60,000	480,000
Services	250,000	500,000

*Employees only. Does not include self-employed people or family workers. The sectoral figures, however, cover all three categories of workers.

Source: Management and Coordination Agency

Other data are supportive of the same conclusion. The ratio of job openings to applications has improved since November 1986 from 0.61 to 0.85, a gain of 0.24, while in the earlier period it increased only 0.06 from 0.58 to 0.64.

EPA sees these results as encouraging for the ability of the Japanese economy to continue growing, barring further shocks. More generally, they are consistent with a shift toward employment in nonmanufacturing industries that transcends both the current business cycle and national boundaries. If the shift has been relatively slow in Japan, it no longer is.

Douglas Ostrom

Japan's Balance Of Payments Edged Up In 1987

Those attempting to determine the direction of Japan's balance of payments had a harder job than usual last year. The country's current account and trade surpluses in dollar terms rose slightly in 1987 to set new records for the fifth straight year. In yen terms the surpluses fell substantially, and an

alternative measure of the trade balance in dollars showed a small drop (see JEI Report No. 4B, January 29, 1988).

The confusion arises in part because of the fluctuating yen. As it appreciated against the dollar, quantities of exports, which actually fell 1.7 percent during 1987, were up in dollar terms. Although import volume rose 7.4 percent, the trade surplus as measured in dollars increased (see Table 1).

Table 1: Japan's Balance of Payments

(in millions of dollars, IMF value basis)

	1983	1984	1985	1986	1987*
Current Account	$20,799	$35,003	$49,169	$85,845	$86,688
Trade Balance	31,454	44,257	55,986	92,827	96,464
Exports (f.o.b.)	145,468	168,290	174,015	205,591	224,432
Imports (f.o.b.)	114,014	124,033	118,029	112,764	127,968
Services	-9,106	-7,747	-5,165	-4,932	-6,099
Transfers	-1,549	-1,507	-1,652	-2,050	-3,677
Long-Term Capital	-17,700	-49,651	-64,542	-131,461	-137,127
Basic Balance	3,099	-14,648	-15,373	-45,616	-50,439
Short-Term Capital	23	-4,295	-936	-1,609	23,845
Errors and Omissions	2,055	3,743	3,991	2,458	-2,951
Overall Balance	5,177	-15,200	-12,318	-44,767	-29,545

*Preliminary.

Source: Bank of Japan

A month-to-month comparison with the previous year also shows the effect of the turmoil in the currency markets. After rising for the first four months of 1987, the dollar-denominated current account was lower every month compared to the same period a year earlier for seven straight months, slightly reversing course only in December. The falling surpluses in the middle of the year occurred when the dollar was comparatively stable and reflected the yen's earlier appreciation; rising surpluses at the beginning and end of the year showed the short-term adverse J-curve effect of a rising yen during those periods.

While the current account surplus overall did not change much in 1987, some of its components did. Investment income rose 76 percent to $16.7 billion but was more than offset by the deficits in other services such as travel, which widened in response to the strong yen. The increase in the overall services deficit reversed a pattern of recent annual decreases.

Japan's net long-term capital outflow continued at a high level, reflecting the recycling of current account surpluses to overseas financial markets (see Table 2). Direct investment increased 35 percent as Japanese companies continued to move production offshore in response to the strong yen. Companies from the United States and elsewhere substantially increased their rate of direct investment in Japan as well, but the amounts were far smaller.

Table 2: Net Long-Term Capital Flows

(in millions of dollars)

	1986			1987*		
	Outflows	Inflows	Net	Outflows	Inflows	Net
Direct Investment	$-14,480	$226	$-14,254	$-19,488	$1,165	$-18,323
Trade Credits	-1,836	-40	-1,876	-613	-1	-614
Loans	-9,281	-34	-9,315	-16,703	-119	-16,822
Securities	-101,977	545	-101,432	-87,798	-6,074	-93,872
Stocks	-7,048	-15,758	-22,806	-16,874	-42,835	-59,709
Bonds	-93,024	-2,109	-95,133	-72,885	6,675	-66,210
Yen-Denominated Bonds Issued in Japan	-1,905	n.a.	-1,905	1,961	n.a.	1,961
External Bonds**	n.a.	18,412	18,412	n.a.	30,086	30,086
Other	-4,521	-63	-4584	-8,830	1,334	-7,496
Total	-132,095	634	-131,461	-133,432	-3,695	-137,127

Note: A negative sign indicates a capital outflow.

*Preliminary.
**Bonds issued outside of Japan by Japanese institutions.

Source: Bank of Japan

The net outflow of securities droppped in 1987, reversing the pattern of rapid increases in recent years. Moreover, the distribution was somewhat different than 1986. American and other investors substantially reduced their position in Japanese stocks both before and after Black Monday. This action, which has the same effect on the balance of payments as increasing Japanese investment abroad, accounted for about 31 percent of the net long-term capital outflow.

The withdrawal of foreign investors from the Tokyo market is unlikely to continue and already shows signs of reversing; without it the recycling process is likely to get more difficult. While government intervention in currency markets may help for a while, over a longer period either the Japanese current account will shrink, reducing the need for a net Japanese capital outflow, or Japanese investors will have to be stirred to greater participation in overseas securities markets, perhaps with higher interest rates in the United States.

Generally, however, the net long-term capital outflow highlights the continued importance of Japanese purchases of bonds overseas, especially in the United States. In 1987 net purchases totaled almost $73 billion, down from $93 billion the year before but still accounting for most of the recycling of Japan's current account surplus. The numbers suggest that the Japanese have not abandoned foreign capital markets, although their enthusiasm may be waning.

Douglas Ostrom

Update On Sino-Japanese Relations

Relations between Beijing and Tokyo experienced several bumps on a generally upward road in 1987. While Sino-Japanese trade continued to move toward balance, repercussions from the Toshiba Machine Co., Ltd. diversion created a sensitive trade problem. Beijing's unhappiness with an Osaka court decision favoring Taiwan also continued to trouble harmonious relations. Both sides are trying to take advantage of Noboru Takeshita's election as prime minister to smooth ruffled feathers and to coordinate foreign policy in the Korean peninsula, an area of immediate and mutual interest.

According to Ministry of Finance data, Japan's trade surplus with China fell to Y123.3 billion (or just under $1.3 billion in dollar terms) in 1987, an 82.4 percent drop over the previous year (see Table). Another contraction in exports and solid import growth explained the rapid turnaround. The total volume of trade declined 13.7 percent, however, from Y2,632.4 billion to Y2,272.8 billion. China's economic reform program led to an import surge up through 1985. The resulting jump in the trade deficit and consequent erosion of foreign exchange reserves alarmed Chinese leaders. Beijing clamped down on imports and called on trading partners, particularly Japan, to buy more Chinese exports. The two measures have clearly been effective.

Sino-Japanese Trade, 1983-87

(in millions of yen and thousands of dollars; change from previous year)

	Exports (f.o.b.)	Imports (c.i.f.)	Trade Balance
Yen			
1983	Y1,167,551	Y1,209,149	Y-41,598
	33.9%	-8.8%	90.9%
1984	1,720,803	1,411,271	309,532
	47.4%	16.7%	n.a.
1985	2,991,151	1,552,365	1,438,786
	73.8%	10.0%	364.8%
1986	1,666,511	965,839	700,672
	-44.3%	-37.8%	-51.3%
1987	1,198,085	1,074,761	123,324
	-28.1%	11.3%	-82.4%
Dollars			
1983	$4,912,334	$5,087,357	$-175,023
	39.9%	-5.0%	-90.5%
1984	7,216,712	5,957,607	1,259,105
	46.9%	17.1%	n.a.
1985	12,477,446	6,482,686	5,994,760
	72.9%	8.8%	376.1%
1986	9,856,178	5,652,351	4,203,827
	-21.0%	-12.8%	-29.9%
1987	8,664,693	7,396,862	1,267,831
	-12.1%	30.9%	-69.8%

Source: Ministry of Finance

As a result of illegal shipments of milling machines to the Soviet Union, Toshiba Machine was forced to suspend all trade with communist countries for one year beginning in May 1987 (see JEI Report No. 22B, June 12, 1987). The ban brought an immediate protest from Beijing, which claimed that it was suffering for an affair it had nothing to do with. According to Japanese officials, 25 contracts with China worth approximately Y2.4 billion ($19.2 million at Y125=$1.00) were affected. Tokyo could not simply exempt China from its ban, however, without irritating the United States. A compromise plan was mapped out in December that would allow Toshiba Machine to fill about 10 of the contracts but it could not receive any cash payments until after the one-year ban had expired. China would get the goods and Toshiba Machine would still face losses for the year.

Mr. Takeshita addressed China policy during his first question period in the Diet as prime minister, holding to the direction set by his predecessor. In response to questions from the Japan Socialist Party, the prime minister said that the government will maintain a "one China" policy as outlined in the 1972 Japan-China joint communique and the 1978 Japan-China peace and friendship treaty. Referring to a 1987 ruling by the Osaka High Court that reversed a lower court decision that China and not Taiwan owned a student dormitory, Mr. Takeshita said that it was inappropriate for the government to intervene in the case, which is on appeal to Japan's Supreme Court. Beijing considers the Osaka High Court decision to contravene the "one China" policy, and Tokyo has been embarrassed by the case.

Tensions in the Korean peninsula are of vital concern to both nations and working-level talks between Deputy Foreign Minister Takakazu Kuriyama and Vice Minister Liu Shuqing January 28-29 in Beijing focused mainly on this issue. This month's inauguration of Roh Tae Woo as South Korean president was discussed, with Japan pledging to help the transition to a full democracy in any way. Both sides expressed hope that the Summer Olympics in Seoul would be peaceful.

In connection with these two subjects, relations between Seoul, Beijing and Pyongyang were discussed. North Korea will boycott the Seoul games, while China (and the Soviet Union) are almost certain to attend. This plus the charges that North Korea was behind the November 1987 bombing of a South Korean airliner (see JEI Report No. 5B, February 5, 1988) have raised tensions on the peninsula. The South Korean president-elect has publicly indicated his interest in normalizing relations with China. Beijing, on the other hand, will not take such a step for fear that it will worsen relations with North Korea and increase Soviet influence north of the 38th parallel. Tokyo denies that it is trying to act as a go-between for Beijing and Seoul but such a role would seem natural.

Preparations for Mr. Takeshita's first visit to China as prime minister were also laid during the January talks. The 10th anniversary of the peace treaty on October 23 presents an ideal opportunity for a visit and Chinese authorities responded positively to the suggestion. Both Beijing and Tokyo are clearly taking steps to smooth relations. If this becomes the foundation for diplomatic cooperation, the entire region could benefit.

Jon Choy

Republican indicated in unequivocal terms that he would not bend. "This amendment alone has caused more changes in [Japan's and other countries'] laws than just jawboning," he told the group, which was comprised of a broad cross section of business, government, congressional, diplomatic and academic representatives. "Without a [monetary] incentive, we won't see the types of improvements in export control that we need," Sen. Garn declared.

The Utah Republican also indicated that he is not inclined to excuse parent Toshiba on the grounds that the parent should bear ultimate responsibility for the behavior and activities of its subsidiaries -- "just as I bear ultimate responsibility for what my staff does." Sen. Garn dismissed questions concerning the fairness of establishing penalties for prospective violators, contending that it provides a necessary incentive for companies to proceed with extreme care in the future. "If you don't violate the law, you won't get hit -- it's that simple," he explained.

Although a representative from the Japanese Embassy effectively articulated all that Japan has done to prevent a replay of the Toshiba Machine affair -- such as lengthening prison terms for violators, extending the statute of limitations, beefing up its export screening staff, and assigning more export control specialists to key diplomatic posts (see JEI Report No. 35B, September 18, 1987) -- Sen. Garn nevertheless lashed out at this country's most important Asian ally. The government of Norway has still done more than Japan in terms of corrective actions, he charged.

Barbara Wanner

Tokyo Extends Car Export Restraints For Eighth Year

Going by the record, International Trade and Industry Minister Hajime Tamura's January 29 announcement that exports of Japanese-made cars to the United States would remain capped at 2.3 million units through March 1989 should have been a major story in this country and Japan. It was anything but. The reason was simple: given the way the political winds are now blowing on Capitol Hill and Tokyo's attempt to play it safe for the last three years and keep the restraints in place even though the White House had not requested an extension, the media on both sides of the Pacific had written off the announcement as a foregone conclusion.

But extending the shipment limits for an eighth year was not a cut-and-dried decision. As Mr. Tamura acknowledged, there was significant support within MITI for the elimination of the quotas when they expire at the end of March. Whatever economic rationale underpinned the 1981 bilateral agreement to shelter American automotive manufacturers from the full brunt of Japanese competition has long since disappeared, this faction stressed. The pro-elimination group also maintained that 1988 would be a good year to return to unrestricted trade in cars because there was no chance of a surge in shipments. On the contrary, the same combination of factors that trimmed U.S. sales of made-in-Japan cars in 1987 (see Table) -- softer domestic demand, higher sticker prices for Japanese nameplates, Detroit's aggressive use of incentives, more competition from other offshore suppliers in the market's low end and bigger supplies of Japanese models assembled in the United States -- would hold down exports this year.

U.S. Retail Car Sales, 1982-87

(units)

Manufacturer/Seller	1982	1983	1984	1985	1986	1987
Toyota Motor Corp.	530,246	555,766	557,981	620,047	633,914	585,199
Honda Motor Co., Ltd.*	365,865	350,670	374,819	406,413	458,268	421,688
Nissan Motor Co., Ltd.	470,246	521,902	485,298	535,372	494,294	409,476
Mazda Motor Corp.	163,638	173,388	169,666	211,093	222,716	206,354
Fuji Heavy Industries, Ltd. (Subaru)	150,335	156,840	157,385	178,175	179,100	175,864
Mitsubishi Motors Corp.	3,950	32,755	39,104	49,734	49,436	67,954
Isuzu Motors Ltd.	15,462	20,731	17,233	26,953	38,910	39,577
Mitsubishi Motors Corp./Chrysler Corp.	102,227	103,569	91,718	105,213	135,528	120,337
Isuzu Motors Ltd./General Motors Corp.	0	0	2,077	53,593	99,380	76,852
Suzuki Motor Co., Ltd./General Motors Corp.	0	0	10,927	31,267	60,983	60,359
General Motors Corp.**	3,515,660	4,053,561	4,587,508	4,607,458	4,532,798	3,555,538
Ford Motor Co.	1,345,698	1,571,321	1,979,317	2,070,392	2,066,507	2,019,783
Chrysler Corp.	691,703	841,622	986,998	1,139,936	1,173,463	962,057
American Motors Corp.	112,433	193,351	190,255	123,449	72,848	***
Volkswagen of America Inc.	91,166	85,045	73,838	77,535	73,912	61,064
Honda of America Manufacturing, Inc.	0	50,402	133,601	145,976	235,247	316,618
New United Motor Manufacturing Inc./ General Motors Corp.	0	0	0	35,594	170,507	134,956
New United Motor Manufacturing Inc./ Toyota Motor Sales USA Inc.	0	0	0	0	7,281	44,853
Nissan Motor Manufacturing Corp. U.S.A.	0	0	0	39,794	52,602	119,678
Mazda Motor Manufacturing (USA) Corp.	0	0	0	0	0	1,671
Total Japanese Imports	1,801,969	1,915,621	1,906,208	2,217,860	2,372,529	2,163,660
Total Imports	2,221,398	2,382,799	2,439,848	2,841,063	3,235,343	3,145,326
Total Domestic Makes	5,756,660	6,795,302	7,951,517	8,204,721	8,214,658	7,081,262
Total Market	7,978,058	9,178,101	10,391,365	11,041,784	11,450,001	10,226,588
Market Share of Japanese Imports	22.6%	20.9%	18.3%	20.1%	20.7%	21.2%

*Includes 52,869 Acuras in 1986 and 109,470 in 1987.
**Starting in 1985 includes the Nova made by New United Motor Manufacturing Inc.
***Chrysler Corp. took over American Motors Corp. in 1987.

Source: Automotive News

MITI officials also considered a third option -- keeping the restraints but lowering the export ceiling for the April 1988-March 1989 period. This course of action would have earned Japan much-needed points on Capitol Hill while costing exporters few if any sales. But Japanese policymakers were not anxious to give the appearance that they had finally bowed to American demands for a shipment rollback, particularly since Ford Motor Co., Chrysler Corp. and the United Auto Workers union base their campaign for a smaller quota on the growth of Japanese car output in the United States. Why should Japanese motor vehicle manufacturers be penalized at all for having accepted Detroit's challenge to produce where they market? industry executives and government leaders asked not for the first time.

MITI Minister Tamura candidly described the decision to continue the restraints at the current level of 2.3 million vehicles as political. But some American trade and industry analysts wonder whether the move really was smart politics because it could have the perverse effect of boosting Japan's U.S.-bound car exports in February and March. They reason that without an extension most exporters would have reduced shipments to trim their big U.S. inventories, in the process helping to narrow the yawning bilateral trade deficit. Afraid now that MITI will reallocate part of their quota for the April 1988-March 1989 period if they do not fill FY 1987's allotment, the argument goes, these manufacturers will ship their full share of cars by March 31 regardless of U.S. sales results.

While some trade and industry watchers dispute MITI's prediction that shipments in the current fiscal year will be below the 2.3 million level, there is general agreement that FY 1988 exports will fall short of the ceiling. This projection is built on the assumption that Japanese automotive manufacturers will bring domestic supplies into line with weakening demand by adjusting exports to the extent possible rather than tinkering with U.S. production plans.

Toyota Motor Corp. will start turning out a Camry-class car this spring at its recently completed Georgetown, Kentucky plant, while Diamond-Star Motors Corp., the Bloomington, Illinois joint venture between Mitsubishi Motors Corp. and Chrysler, will launch production of a sports coupe for its two parents this fall. About that time Mazda Motor Corp.'s Flat Rock, Michigan plant, which assembled only 4,300 cars in 1987, should reach full capacity, making the sporty MX-6 for Mazda and the similar Probe for Ford at an annual rate of 240,000 vehicles.

In addition, Nissan Motor Co., Ltd. would like to raise Sentra output at its Smyrna, Tennessee facility above 1987's tally of 113,000, although this will depend on U.S. demand for its pickups, all of which are now built here. For its part, Honda Motor Co., Ltd. plans to up the number of Accords and Civics rolling off its Marysville, Ohio assembly lines from 322,000 to 360,000 this year. New United Motor Manufacturing Corp. also has the capacity at its Fremont, California plant to expand the output of Toyota Corollas beyond 1987's total of 42,000, but overall production is expected to drop from 182,000 to somewhere between 120,000 and 150,000 in 1988 because of reduced demand for the Chevrolet Nova.

By triggering a cutback in exports, increased U.S. output of Japanese nameplates could hasten a decision by Tokyo to scrap the shipment limits.

MITI Minister Tamura told a press conference that the quotas would be removed when the decline in U.S.-bound shipments becomes an "established trend." Most observers do not expect the government to take this step until March 1989, but if there is a big drop in exports this spring and summer, the era of managed trade in cars could end soon after the November elections.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily reflect those of the Japan Economic Institute.